
THE ACCOUNTING MIRROR OF THE BANKING BUSINESS: THE BANK OF BARCELONA (1845-1856)

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RESUMEN

El Banco de Barcelona fue el primer banco emisor regional en España. Gracias a la reciente recuperación del archivo del Banco de Barcelona, analizamos los ratios contables de solvencia, liquidez y rentabilidad para el periodo 1844-1856.

El análisis de los ratios contables muestra que el Banco de Barcelona elevó el grado de apalancamiento financiero. La rentabilidad del accionista se incrementó pero la solvencia y la liquidez se redujeron tras la crisis financiera de 1847-1848.

En los orígenes del sistema financiero, cuando no había un sistema rígido de control legal sobre la actividad bancaria, la rentabilidad del accionista fue el objetivo prioritario frente a los objetivos de solvencia y liquidez.

ABSTRACT

The Bank of Barcelona was the first regional issuing bank in Spain. Thanks to the recent recovery of the Bank of Barcelona archive, we have analysed accounting ratios of solvency, liquidity and profitability in the 1844-1856 period.

The analysis of the accounting ratios shows that the Bank of Barcelona increased its level of financial leverage. Shareholder profitability increased but solvency and liquidity showed a declining trend after the financial crisis of 1847-48. In the beginning of the banking system, when strict governmental control was lacking, shareholder profitability took priority over the other business aims such as solvency and liquidity.

PALABRAS CLAVE:

Historia bancaria española siglo XIX, Banco de Barcelona, coeficiente de caja, ratios contables.

KEYWORDS:

19th-century Spanish banking history, Bank of Barcelona, cash reserve, accounting ratios.

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Introduction

Barcelona was one of the pioneering Spanish cities in the establishment of issuing banking institutions in the mid-19th century. The Bank of Barcelona was set up in 1844 and closed down in 1920 after a much-publicized bankruptcy process.

Banking practices implemented by the Bank of Barcelona modernized Catalan finance in the mid-19th century. Spanish legislation restricted the creation of issuing banks until the banking liberalization Act of 1856 and, as a result, the Bank of Barcelona did not have any competition in Catalonia during the years 1844-1856. The aim of our study was to understand the logic of banking activity during this period.

The paper analyses accounting ratios of solvency, liquidity and profitability of the Bank of Barcelona in the 1844-1856 period. Our methodology is close to the definition formulated by Cañibano Calvo (quoted by Hernández Esteve, 2003:15), who emphasizes the informative purposes of accounting: “*Accounting is an economic science, the purpose of which is past, present and future knowledge of the economic reality in quantitative terms at all its organizational levels, by means of specific methods supported by bases that have been sufficiently verified, in order to draw up information that covers external financial needs and internal planning and control requirements*”. As a private institution, the Bank of Barcelona developed a banking policy focusing on business criteria.

The literature has primarily addressed the standardization of bank balance sheets for subsequent phases (after 1856). The most ambitious study was the 2-volume work published by the Bank of Spain and coordinated by Gabriel Tortella (1974), *La banca española en la Restauración*. For our study, we used the accounting criteria of today to thoroughly standardize the balance sheets of Bank of Barcelona in a period in which there were few banks in Spain. With this aim in mind we tabulated data provided by the institution in its half-yearly reports and presented it in systematic accounts. By presenting the bank’s accounts in a contemporary arrangement that respects and explains the special features, we offer researchers a source of first-hand information that can be used in subsequent works. The accounting methodology provides insight into the institution’s business management. Our study provides a firmer grasp of the institution’s decision-making process and the importance of these decisions on the economic development of Catalonia. An accounting analysis of the objectives of liquidity, solvency and profitability is relevant in order to understand the microeconomic workings of the bank.

The paper is organized in four sections. First of all, we describe the historiography of issuing banks in Spain in the 19th century and the legal framework of the accounting system. Secondly, we study the origin and the organizational structure of the Bank of Barcelona. The items that we included in the standardized accounts balances are then discussed next. Finally, we analyse the bank’s accountant ratios of solvency, liquidity and profitability. Thanks to the recent recovery of the Bank of Barcelona archive, our paper helps us understand the business of a modern pioneering bank in Spain.

The history of Spanish banking and bookkeeping

In the modern period, Spain developed important skills in banking practice as a result of the management of money from its South American colonies (Ruiz Martín, 1970). After these colonies became independent, financial difficulties led to the bankruptcy of the first

Spanish bank, the old Bank of San Carlos (1782-1829), which became the Bank of San Fernando in 1829. This was the only bank in Spain until the 1840s, when other banking institutions began to open on the peninsula.

The Code of Commerce (1829) regulated the opening of banks. This Code called for royal authorization for the founding of an issuing bank and the government was required to name a royal commissioner entrusted with making sure that legislation was upheld. In 1844 two acts made it possible to open the new issuing banks, the Bank of Isabel II (located in Madrid) and the Bank of Barcelona. The Bank of Isabel II was absorbed by the Bank of San Fernando, but one branch – the Bank of Cadiz – was constituted as an independent bank after the absorption.

In 1856, a new law liberalized the creation of issuing banks. The banks that had existed up until that time (San Fernando, Cadiz and Barcelona) lost the monopoly of bank-note issuing within their respective cities. Issuing banks, commercial banks and credit and factoring societies coexisted over the next two decades, until the Bank of Spain obtained the monopoly for issuing bank notes in Spain in 1874.

Historians have studied the Spanish financial system of the 1856-1874 period¹. However, there is little historiography for the period leading up to 1856. Tedde (1999) studied the Bank of San Fernando, Zumalacárregui (1952), Ruíz Velez Frías (1977) and Tedde (1984) studied the Bank of Cadiz, and Cabana (1978) studied the Bank of Barcelona.

Spanish historiography has lagged behind in terms of banking. The European tradition of central banking had bloomed late in Spain. Ramon's book (1929) in France and Clapham's book (1945) in England were both written before 1950. However, comparable studies on Spain, Pedro Tedde's books (1988 and 1999), were published in the final decades of the 20th century.

Authors writing about the Bank of Barcelona used indirect sources because the archive of the bank was lost. A few years ago the documents turned up in an office of Banco Santander Central Hispano, which donated the archive to the Catalan government. These documents constitute the Historical Batch of the Bank of Barcelona, and are now deposited in the National Archive of Catalonia. The source includes the minutes of the Shareholders' General Meetings, the minutes of the Board of Governors meetings, the minutes of the Board of Directors meetings, and Statutes and General and Particular Regulations of the bank, and the bank's Special Operation Regulations, and much qualitative information very useful for interpreting the data of financial statements².

¹ Although not totally exhaustive, it is worth mentioning the work of Tedde on the Bank of San Carlos (1988) and also his study on the Bank of Cadiz (1984); previous studies on the Bank of Cadiz include those of Zumalacárregui (1952) and Ruíz Vélez Frías (1977). Also of note are studies by Ródenas (1978) on the application of the Peel law in Spain. On the Bank of Catalonia, the effort of Cabana (1978) in compiling and putting information at the disposal of the researchers must be acknowledged. As far as this study is concerned, the only existing monograph to date on the Bank of Barcelona is by Cabana, which we will discuss. Additionally, Sudrià (1982) carried out a study in the 1980s on banking in Catalonia. For other Spanish banks, some studies, such as the one by García López (1989), have been made of specific institutions.

² The appearance of the documentation of the Bank of Barcelona is relatively recent. In this respect, see: Blasco (2003).

The items on financial statements (balance sheets, and profit and loss accounts) are not normalized. In Spain, as Hernández Esteve (2003:4) indicates: “*the period that we have established for studying the origins and development of the concept of accounting as a science starts in 1800. Nevertheless, the real period of interest begins in 1825, when José María Brost’s book, Curso completo de Teneduría de libros o modo de llevarlos por partida doble, was published*”. The Code of Commerce (30 May 1829) regulated the accounting rules of mercantile companies (Second section: On mercantile accounting [Articles 32-55]). The double-entry methodology was used in financial accounting and three books were required: the balance sheet and ledger and the journal book. The balance sheet had to be annual and included cash, accounts receivable and fixed assets, and capital and liabilities. Uniformity was not necessary. Neither the order nor the detail of the accounts on the balance sheet was required. The prudence principle inspired the ledger / journal entries, although these entries followed the payment principle, contrary to the accrual basis applied in the current financial accounting system.

The books had to be safeguarded against falsification, bound and numbered by the Court of Commerce. Crossed-out text, deletions and corrections in accounting books were forbidden and the accounting had to be in Spanish. Those who failed to follow these rules were fined.

The Bank of Barcelona was a limited-liability company authorized to issue bank notes. As a result of this privilege, its statutes regulated the basis of financial accounting according to the Code of Commerce³. The Board of Governors had to draw up a half-yearly balance sheet to show to the Shareholders’ General Meeting (Image 1 shows one example of the balance sheets). The Board of Governors of the Bank of Barcelona knew the importance of accounting in the management of the organization. For this reason, Antonio Guillén Suárez, author of the 1839 book *Tratado compendioso de la contabilidad mercantil en partida doble*, was appointed accounting manager of the bank on 30 May 1845⁴.

Although the Code of Commerce did not require the uniformity principle, the bank explained the reasons for changes in its accounting criteria in its Annual Reports. Thanks to these explanations, we have been able to standardize the balance sheets and profit and loss accounts.

³ Statutes and General and Particular Regulations of the Bank of Barcelona were approved by the Queen the 1st May of 1844 and the 25th March of 1845.

⁴ Historical documentation of the Bank of Barcelona. *Arxiu Històric Nacional de Catalunya*, Statements of the Board of Governors, 30 May 1845.

Image 1: Balance Sheet of the Bank of Barcelona (30 June 1850)

BALANCE.	
ACTIVO.	
Deben los SS. accionistas el 75 p. % del valor nominal de sus acciones.	\$ 750,000'000
Valores en cartera.	1,020,922'404
Id. procedentes de adjudicaciones.	66,954,080
Metálico existente en la caja del Banco.	4,458,830,442
Gastos de instalacion amortizables.	4,884'603
Muebles y utensilios idem.	3,650'884
En poder del encargado de gastos.	42'883
Almacenes por cobrar.	303,804
Cuentas transitorias.	44,384'374
Valores en amortizacion.	44,796'576
Saldo en poder de la Caja de Palma.	5,658'639
Efectos existentes en la cartera de dicha sucursal.	7,400'000
Total activo.	\$ 3,948,048'088
PASIVO.	
Importe de los billetes en circulacion.	\$ 490,490'000
Saldo de cuentas corrientes.	4,948,660'768
Saldo a favor de la Excmo. Junta de carreteras de las cuatro provincias de Cataluña.	131,392'468
Depósitos.	283,279'733
Dividendos de beneficios pendientes de cobro.	826'000
Dividendos reintegrables pendientes de cobro.	4,650'000
Alcance de corredores.	180'968
Valores pendientes.	4,505'425
Corresponsales.	66,072'664
Obligaciones por pagar.	578'725
Reserva de beneficios.	25,000'000
Capital del Banco.	4,000,000'000
Beneficio.	\$ 45,555'827

GANANCIAS Y PERDIDAS.	
Las utilidades por descuentos, préstamos y comisiones han sido durante el semestre, de.	\$ 22,401'510
DEDUCCIONES.	
Gastos de oficinas, contribucion y otros ordinarios.	\$ 809'062
Alquileres liquidados.	549'787
Sueldos de empleados.	5,125'066
Correajes.	411'758
Gastos de instalacion amortizados.	125'000
Muebles y utensilios idem.	125'000
\$ 6,845'683	\$ 6,845'683
Beneficio.	\$ 45,555'827
40 p. % para las Juntas de gobierno y directiva.	1,555'583
Beneficio liquido.	\$ 44,000'244
Se deducen para aplicar a la cuenta de valores en amortizacion.	1,500'244
Quedan repartibles.	\$ 42,500'000
O sean \$ 2'500 por cada una de las 5,000 acciones que componen el capital del Banco.	

* Barcelona 4 de agosto de 1850.

EL PRESIDENTE,
Manuel de Llanusa.

Por acuerdo de la Junta de gobierno.
Jacinto de Llanusa,
Secretario.

ACTIVO	31/6/1850	PASIVO	31/6/1850	GANANCIAS Y PÉRDIDAS	31/6/1850
Deben los SS accionistas el 75% del valor nominal de sus acciones	750.000,000	Importe de los billetes en circulación	490.490,000	Las utilidades por descuentos, préstamos y comisiones has sido durante el semestre, de	22.401,510
Valores en cartera	1.026.922,104	Saldo de cuentas corrientes	1.348.660,768	DEDUCCIONES	6.845,683
Valores en cartera procedentes de adjudicaciones	66.954,060	Saldo a favor de la Excelentísima Junta de carreteras de las cuatro provincias de Cataluña	131.292,163	Gastos oficinas, contribución y otros ordinarios	809,602
Metálico existente en la Caja del Banco	1.458.930,110	Depósitos	263.279,733	Alquileres liquidados	549,797
Gastos de instalación amortizables	4.934,603	Dividendos de beneficios pendientes de cobro	836,000	Sueldos de empleados	5.125,066
Muebles y utensilios idem	3.690,884	Dividendos reintegrables pendientes de cobro	4.650,000	Corretajes	111,758
En poder del encargado de gastos	42,883	Alcances de corredores	130,963	Gastos de instalación amortizados	125,000
Almacenajes por cobrar	303,804	Valores pendientes	1.506,195	Muebles y utensilios, amortización	125,000
Saldo de cuentas transitorias	11.384,374	Corresponsales	66.072,664	BENEFICIO	15.555,827
Valores en amortización	11.796,575	Obligaciones por pagar	573,725	10% Juntas de Gobierno y directiva	1.555,583
Saldo en poder de la Caja Subalterna de Palma	5.688,639	Reserva de beneficios	25.000,000	Beneficio líquido	14.000,244
Efectos existentes en la cartera de dicha sucursal	7.400,000	Capital del Banco	1.000.000,000	Se deducen para aplicar a la cuenta de valores en amortización	1.500,211
Total activo	3.348.048,038	Total pasivo	3.332.492,211	Quedan repartibles	12.500,000
				O sean 2.500 duros por cada una de las 5.000 acciones que componen el capital del Banco	
		BENEFICIO	15.555,827		

The Bank of Barcelona within the context of Spanish banking in the mid-19th century

The first studies of the historiography of Spanish banking date from the 1940s (Canosa, 1945; Tallada, 1946). However, the most significant contributions were made starting in the 1970s (Sánchez Albornoz, 1968; Ruiz Martín, 1970; Tortella, 1973). Tortella (1973) produced a seminal text on the historiography. He analysed the origin of capitalism in Spain and placed special emphasis on the organization of the financial system and its effects on economic growth in the middle decades of the 19th century. Tortella did his dissertation with Rondo Cameron's supervision; as a result, his research used as its main reference the Cameron approach (Cameron, 1974). The studies carried out at that time focused on searching for explanations for the backwardness of the Spanish system. As such, Spanish historiography was occupied principally with offering general explanations and additional data in order to attempt to establish the macro magnitudes that would make it possible to thoroughly understand the period.

Banks were not unknown in Spain in earlier times. In fact, the *Taula de Canvi*, created in Barcelona in 1401, is an early example, along with some other failed experiments at the end of the 18th century (Feliu and Adroer, 1989; Ruíz Martín, 1970). However, it was not until the mid-19th century that modern banks began to appear on the peninsula. Throughout the

1840s an interest in banking was generated in many cities⁵. This interest occurred relatively late in the context of the evolution of banking in the rest of Europe. The political and institutional causes for this should be mentioned. On the matter of political evolution, Spain suffered great instability starting in the beginning of the 19th century, which included the problems caused by the independence of its colonies, the Napoleonic invasion and, to round matters off, the internal conflict that plagued the first four decades of the century. Nonetheless, at the beginning of the 1840s the political situation appeared to become more stable, thus stimulating business. The only bank in existence until the 1820s was the Bank of San Carlos, which experienced an adverse state of affairs due to the depreciation of royal promissory notes. This led to the closing down of the institution in 1829 and the emergence of the Bank of San Fernando⁶. Despite relative political stability, Spanish banking continued to be subject to major restrictions until 1856.

The Spanish government was not permissive concerning the development of limited-liability companies (Tortella, 1968) in the first half of 19th century. The creation of such a company required the approval of the Court of Commerce and, in cases where some kind of privilege existed (as was the case of issuing banks), the approval of the King or Queen was also needed. Until 1856 and especially after the 1848 crisis, this legislation resulted in major restrictions with regard to the founding of banks, credit societies and other joint-stock companies of a commercial or industrial nature⁷.

Despite the lack of affection for financial institutions, in 1845 two permits were granted to open provincial issuing banks on the peninsula: one which paved the way for the opening of the Bank of Isabel II in Madrid at the beginning of 1845; and some months later another authorizing the Bank of Barcelona. The Bank of Isabel II was set up by José de Salamanca, a well-known businessman, speculator and minister (Martín Aceña, 2002). The institution had been operating for barely two years when, in 1847, it was “forcibly” merged with San Fernando Bank, which took over its dubious portfolio. With some difficulty, the Cadiz branch of the Bank of Isabel II obtained the issuing privilege. After the episode of the closing of the Bank of Isabel II, there remained three banks with the right to issue bank notes: the Bank of San Fernando in Madrid (whose fundamental purpose involved acting as banker to the government), the Bank of Cadiz and the Bank of Barcelona.

⁵ Tortella (1973): apart from the Bank of San Carlos and the Bank of San Fernando, which have their own history, it also mentions the Bank of Isabel II (including its branch in Cadiz), as well as two short-lived, non-issuing banking ventures, namely, Banco de la Unión and Banco de Fomento y Ultramar. In the 1840s other banks that did not have the right to issue bank notes were set up in the provinces: Caja de Descuentos Zaragoza and Sociedad Valenciana de Fomento.

⁶ On the subject of the Bank of San Carlos, see Hamilton (1970) and Tedde (1988). Tortella (1986) put together an index of shareholders of the Bank of San Carlos. With regard to the Bank of San Fernando, see Tortella (1970). Tedde (1999) is an essential work.

⁷ On 28 January 1848, a restrictive Public Limited Company Law was passed, accompanied by a set of regulations (dictated by a Royal Decree of 17 February 1848, which included public limited partnerships). As such, the setting up of a company required the approval of either the legislative assembly or the queen, an awkward and expensive process designed to act as a disincentive for the founding of these companies. Although the 1848 crisis has been associated with this legislation, the legislation was prior to the crisis (which began in France on 23 and 24 February). It appeared to be more a response to the problems with the Banks of Isabel II and San Fernando than to the 1848 crisis, understood as a response to the events in France after the destitution of Louis Philippe II, Duke of Orléans.

Three commercial firms of the city founded the Bank of Barcelona. The opening permit for the institution was granted to them *in extremis*. The minister García de Carrasco, Count of Santa Olalla, signed the authorization on the day prior to his resignation; his successor was reluctant to open banking institutions. The bank began its operations in August 1845 with a nominal capital of 1 million *duros* (1 duro=5 pesetas; 166,386 pesetas= 1 euro), of which a quarter was to be disbursed, and it was authorized to issue a maximum amount of bank notes equal to the nominal capital. Businessmen and some industrialists of the city were well represented within the management structure⁸.

The reasons presented by the management of the institution on requesting authorization to open the bank were linked to the commercial and industrial growth of the city. As they point out: *"The commercial firms of this city which shall sign here below (Girona Hermanos Clavé y Cía., José María Serra, Plandolit Hermanos), observing the progressive increase in manufacturing within the Principality, the multiplying of transactions and commercial contracts, the strength being acquired by commerce and industry and the upwards trend in the forming of partnerships; acknowledging equally the obstacles to rapid growth of public wealth represented by the lack of hard cash in certain cases, the suppression of manufacturing orders and lack of equipment for industrial firms, became convinced that in Barcelona there was a need for an element capable of avoiding such obstacles in the fashion of what is advantageously practised in other European capitals, i.e., a Factoring Bank; a truly powerful aid for the most widespread development of commercial, manufacturing and industrial operations, the benefits of which could spread to agriculture and every stratum of society. The three firms mentioned above proposed the creation of the Bank of Barcelona to His Majesty's Government at the commencement of the year 1842, including its statutes. Certain partners made repeated journeys to this effect, dedicated to the clear need for such an establishment and subsequent to not inconsiderable expenses and the delay which unfortunate events in this capital provoked, thanks to their industry and the powerful help received from influential persons of the Court, they have finally achieved from His Majesty the approval for the establishment of the aforementioned bank and consequently in the aforementioned city of Barcelona...."*⁹

The Bank of Barcelona obtained royal approval for its constitution on 1 May 1844, but another year passed before it received definitive authorization to set up shop, which occurred in August 1845. Its shares were subscribed immediately and there were initially 250 shareholders. The Shareholders' General Meeting, the Board of Governors and the Board of Directors evaluated the activity and management of the institution. The government, with the bank's approval, named a royal commissioner entrusted with ensuring compliance with the rules. Image 2 describes the functions of the institution's principal organs and executive positions.

The Board of Governors created a committee made up of several board members and assigned them the task of drawing up the half-yearly financial statements, which were then presented to the Shareholders' General Meeting. These financial statements included the balance sheet, profit and loss account and an explanation of the operations performed.

⁸ A study of the composition of the Board of Governors of the bank in the early years of its existence can be consulted in Blasco (2001).

⁹ Minutes from the meeting of the Board of Directors of 20 August 1844, page 5.

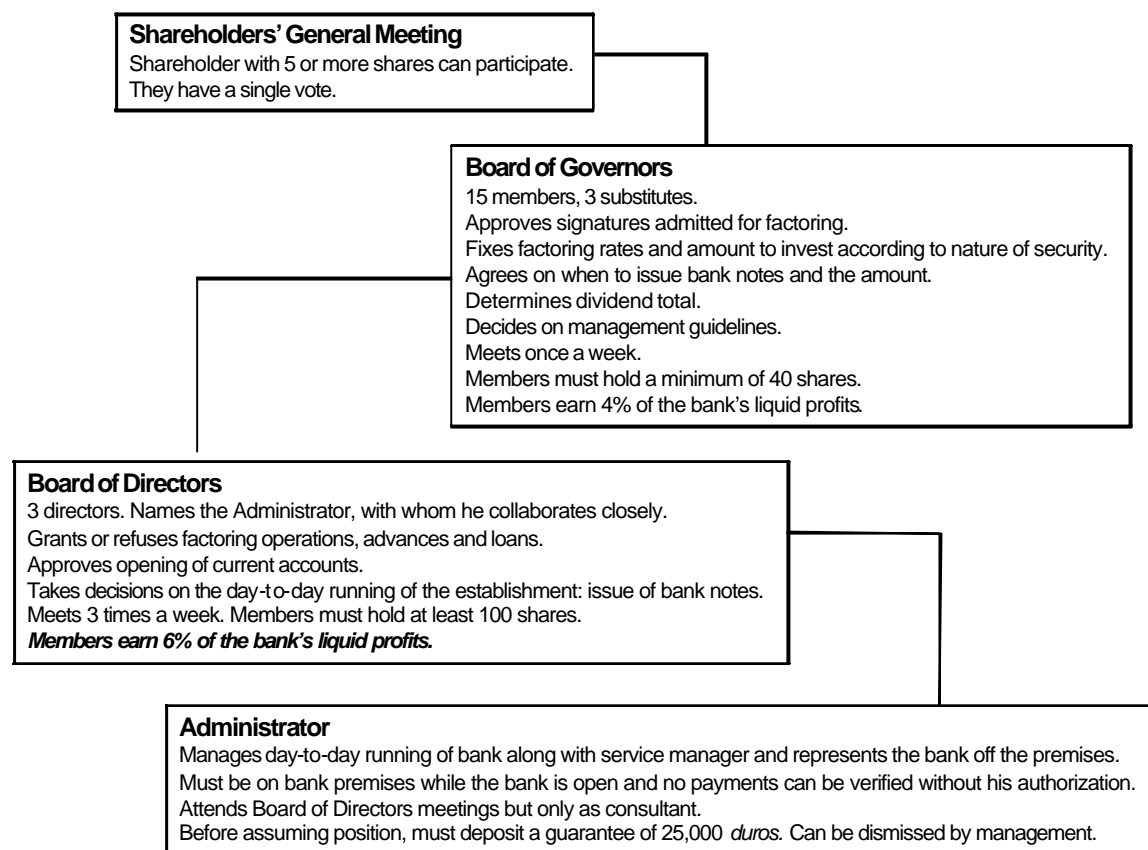
Furthermore, according to its statutes, the bank was obliged to send a fortnightly balance sheet to the government.

The bank's half-yearly financial statements have not been studied until now because they were lost. Tortella (1973) and Cabana (1978) based their studies on the Bank of Barcelona's financial statements of 1894¹⁰. These 1894 financial statements are special because they briefly review the history of the institution and document the evolution of large entries over the 50 years of existence of the institution in its appendices¹¹.

¹⁰ Cabana collects data for December of the years in the 1845-1920 period: bank notes in circulation, current accounts, deposits, portfolio, equity of the institution, cash assets and profits. We have checked the data in Cabana's book against the 1894 financial statement and the two coincide, except in the case of profits, which do not appear in the financial statements. We are not aware of the source he used since this data does not coincide with that provided in the half-yearly financial statements. There are certain presentational problems with the data: in the case of deposits, only two voluntary deposits are recorded up to 1848 and from this period on he provides total figures since the financial statements do not break them down. When he records the owners' equity of the institution, he warns that some columns (1,2,3,4) are in *duros* up until 1874 and that others are in pesetas for the entire period. Cash assets are presented in pesetas, yet the bank-note totals in cash assets are given in *duros* with no warning given to the reader.

¹¹ On checking this financial statement against the half-yearly financial statements, a number of points must be explained: 1. The entry for bank notes in circulation corresponds to the item issued bank notes. However, in some years there are differences between the two concepts. For the period with which we are concerned, the greatest differences can be found in the first half of 1848, the last half of 1855 and first half of 1856; 2. The entry for current accounts does not include other payment obligations (cheques pending, transitory accounts, values pending, brokers, other non-specific payment obligations, correspondents, etc.); hence, there are always differences between the two; 3. It does not take into account certain items such as transitory accounts, balance of correspondents and effects in branches and values in amortization, etc., which alter the value of the portfolio values entry. Furthermore, the figures for portfolio values in the half-yearly financial statements for the accounting periods of June 1846, June 1848 and December 1848 do not coincide with those which appear in the financial statement of 1894; 4. The entry for cash assets includes coins, bank notes and Catalan *calderilla*. Until now, the authors had not picked up on this point. The entry for cash assets differs from the 1894 financial statement in the accounting periods of December 1846, June 1847 and December 1847.

Image 2: Organizational Structure of the Workings of the Bank of Barcelona, 1844-1856



Description of financial assets and liabilities on the Balance sheet and entries in the Profit and Loss account

The reports provide quantitative information in a heterogeneous form. Moreover, the criteria for submission of balance sheets were modified a number of times in the 1844-1856 period. It has been necessary to standardize and systematize the presentation of data. We have grouped the accounts presented in the balance sheets. The information in the records of the Board of Directors, Board of Governors and Shareholders' General Meeting was essential. The criteria we followed for grouping assets are described below.

1. Financial assets

* 1.1 Cash assets: This entry is based on the institution's own definition of cash assets (coins, bank notes and promissory notes of *calderilla*¹²) plus a small cash entry comprising the cash held by the expenses manager and the cash deposited at secondary branches¹³. Accordingly, the total amount of this item includes coins (gold and silver coins of intrinsic value), the bank notes of the bank and, from 1852 onward, and the Catalan *calderilla* promissory notes which the bank negotiated¹⁴.

According to the statutes approved on the opening of the bank, the institution always had to keep, in deposit and in coins, a sum equivalent to one third of the bank notes issued (Article 40 of the statutes) In the laws of 1849 and 1851, this requirement was altered as follows: "the quantity of coins [in deposit] must always be at least equivalent to one third of the value of the bank notes in circulation." (Article 3. Banking Law, 15 December 1851).

* 1.2 Accounts receivable: The main entry in this group is equity holdings. In this section two accounts with insignificant totals are also included: the balance of correspondent banks and commercial paper in secondary branches. Furthermore, as a result of the 1847-1848 crisis, several entries appeared relating to the non-payment of the holdings account. Such

¹² Catalan copper coins.

¹³ The bank was authorized to open branches. One was set up in Tarragona and later moved to Reus and another was opened in Mallorca. After the 1848 crisis, the Reus branch was closed down.

¹⁴ The aim of issuing promissory notes of Catalan *calderilla* was to gradually withdraw the copper coins known as *calderilla catalana* from circulation in 1852. The notes were legal tender in Catalonia and of compulsory admission in up to 20% of the total of any single cashing in or paying out operation, according to a Royal Decree of 5 August 1852 and lowered to 10% by a decree of 6 December. On this matter, see Pascual (1987). The part played by the bank in this process was to accept encashments and make payments with up to 10% of promissory notes of *calderilla*, which caused certain problems. In a meeting of the Board of Directors on 13 December 1852, the management took the decision that from that moment on, outward payments would be made using the same proportions of each "kind of money" – coins, bank notes and promissory notes of *calderilla* – as employed by the client when paying in the amount in the first place. However, later on, on 21 February 1853, the bank decided to impose a minimum reimbursement of 250 *duros* (5-peseta coins) for cashing cheques. This measure was an endeavour to put an end to the attempts of some bank clients to take advantage of the depreciation of promissory notes; according to the Board of Directors, many cheques for small quantities were brought to the bank to be cashed, for which the institution could only use the lowest denomination promissory note of *calderilla* - with the lowest depreciation and, therefore, those in most demand. In turn, individual clients paid in the highest denomination promissory notes - with the highest depreciation - into their current accounts. It was later impossible for the bank to place them due to the fractioning of the amount of the cheques mentioned above.

entries petered out in the post-crisis period but acquire importance in this situation. Equity holdings were from appropriations, securities pending, balances of transitory accounts, outstanding payments on storage securities and amortization securities. This section encompasses all bank assets from its lending and factoring operations (promissory notes and payment instalments - two items that are impossible to differentiate here). Loans were authorized in exchange for security: accounts receivable (maximum 2 months renewable), fruits and commercial paper (maximum 3 months renewable), and foreign currencies and precious metals (maximum 4 months). Borrowers would sign a promissory note made available to them by the bank, but the security was kept by the bank. However, in the case of profit and commercial paper and from the 1850s onward (when the bank totally abandoned its own warehouses after the crisis), it was stored in the warehouse of the company with which the bank had reached a custody agreement. In the case of public debt, the borrower had to replenish what was necessary in case value had been lost. Factoring operations were carried out through instalments or promissory notes not exceeding four months and had to be signed by three individuals vetted by the bank (which granted a maximum of 100,000 *duros* in credit). Alternatively, two individuals vetted by the bank could sign, but in this case they had to deposit shares, accounts receivable or other negotiable commercial paper as security in the bank's power.

* 2. Capital assets: The bank accounted for capital assets in terms of net value. The following entries were included: buildings, furniture and fixtures, and installation costs. We have considered the entry of installation costs (2.1 Fixed Assets) as an Intangible Asset (2.2); we have not considered this entry a fictitious asset since it is maintained throughout the period of analysis. In December 1856 the bank substantially modified the structure of capital assets upon the acquisition of the most well-known headquarters of the bank, an old cannon factory known as the Afinos¹⁵ building.

* 3. Uncalled share capital: In its statutes, the bank included the obligation of disbursing 25% of the nominal capital upon initiating operations. At the same time, the statutes also envisaged that whenever possible this percentage should not be exceeded¹⁶. The part of the capital that was underwritten and not disbursed acted as a kind of "reserve as additional guarantee" in the hands of the shareholders¹⁷.

During the early years, several disbursements exceeding 25% were carried out, including those triggered by the 1848 crisis. But from that time onward, the disbursement excess continued. Starting in 1855 a capital increase was made but the criterion of a

¹⁵ The name refers to the process of purifying and refining metal.

¹⁶ Article 25 of the Statutes. This was the novelty introduced by the Bank of Barcelona according to Tortella (1973:36). This idea was applied by the Bank of Cadiz starting in 1848; it remained the case until 1860. See: Torrejón and Higuera (2003:26). We are grateful to Gáspar Feliu for this information.

¹⁷ Financial statement read at the Shareholders' General Meeting of the Bank of Barcelona, 1 August 1847. p. 3. Also, the financial statement of 20 May 1894 (50th anniversary) explains that "the strong reserves in the hands of the shareholders constitute a highly valuable resource for countering the effects of great crises that banks may be subject to, even making them impossible to bankrupt, in the face of one of those cataclysms against which human foresight can do nothing."

maximum of 25% disbursement was kept in place (as can be seen in the balance sheet of June 1856)¹⁸.

4. Financial liabilities

* 4.1 Bank notes: The bank notes of the Bank of Barcelona began to circulate ninety days after the bank opened its doors in October 1845. The notes of lowest and highest denominations were 10 and 100 *duros*, respectively. Although an attempt was made to print them outside the country, they were finally produced in Barcelona following a laborious process to avoid forgery.

According to the bank's statutes, bank notes for the value of the nominal capital could be issued (1 million *duros* until 1855)¹⁹. However, a law of 4 May 1849 modified this limit in that it restricted issuing in respect of the situation initially addressed by the bank statutes²⁰.

* 4.2 Current accounts: they accepted coins or bank notes issued by the bank, the amounts of commercial paper payable whose collection was entrusted to the bank and with a maximum due date of 10 days, as well as the amount in cash of the factoring operations carried out by the bank²¹. The sums were available one day after their deposit in the account and current accounts could not be overdrawn. The bank requested that clients who contracted debenture bonds through their current account advise the administrator *ten days before their due date* with all the details of the debenture bond contracted²².

The opening of current accounts occurred very slowly initially and operations carried out through them only got going after the 1848 crisis and the restriction of bank notes produced by the laws of 1849-51. Once an agreement had been reached on the collection of *calderilla*, 10% the reimbursement of the amounts in current accounts could be carried out with *calderilla*, although bank managers first maintained the criterion of repaying deposits and current accounts with the same type of money that had been paid into the bank.

* 4.3 Other payment commitments: this groups together several entries of minor amounts, namely: outstanding cheques (or commercial paper), transitory accounts, securities pending, broker operations, the balances of correspondents and the balance of the Roads

¹⁸ This capital increase would bring them several problems which became evident in the years subsequent to those covered by this study.

¹⁹ There was a period, in 1847 and 1848, when the bank exceeded its legal issuing limit, although it always obeyed the other issuing requirement, namely, to keep one third of the notes issued in deposit in cash. However, it was not exactly a legal infraction, because there was a statutory possibility to increase the issuing limit up to twice the nominal capital in case of the bank maintained one third of the bank notes in cash.

²⁰ Article 6. "*From now on, there will one sole issuing bank and an attempt will be made to reach an agreement between the Banks of San Fernando, Cadiz and Barcelona, in order to find a way of ensuring the union between the latter two and the former with no damage whatsoever to their respective interests and with the approval of the government. If the said union cannot be achieved, the acquired rights of the Banks of Cadiz and Barcelona will not be affected and their authority to issue notes to the value of the effective paid-out capital existent in the banks will be maintained.*"

²¹ Special Operations Regulations for the Bank of Barcelona, Chapter 4, Article 50.

²² Special Operations Regulations for the Bank of Barcelona, Chapter 4, Article 56.

Commission of Catalonia. This commission had opened a current account in 1848 earmarked for roads infrastructure in the Catalan provinces.

* 4.4 Commitments to shareholders: this corresponds to the entries of dividends pending collection on behalf of the shareholders and to the refund of disbursed capital above 25%.

5 Long-Term Liabilities

* 5.1 Deposits: We have considered deposits repayable at six months to be long-term deposits. The types of deposits acknowledged by the bank between June 1846 and 1849 were: voluntary, judicial, by substitutes and those deposited by the Caja de Ahorros de Barcelona²³ deposited. From December 1849 until the end of the period covered by this study, the bank only listed deposits without breaking them down.

Deposits allowed: securities of domestic and foreign debt, bills of exchange, bank notes, shares, debentures of all kinds, gold and silver ingots and domestic and foreign gold and silver coins. Although they accepted precious stones in deposit, soon after beginning operations they decided not to accept deposits of jewels²⁴. They were six months renewable and charged 0.12% annually. Exceptions were made, however, and there were periods when they did not collect on the custody of certain kinds of deposits, such as voluntary ones in 1854. The bank's notion of deposits as insurance is expressed through a problem which it had in February 1853: *"Given the proliferation of the abuse of taking out small loans and handing over items of considerable value as security as a way of avoiding the custody-right payments properly due to the institution if the operation had been effected as appropriate, in the form of a sealed deposit, it was agreed that, in future, a maximum of double the amount borrowed may be accepted as security"*²⁵. This exemplifies somewhat the notion of the bank as a safe deposit charging a fee for the custody of items. The notion of a deposit understood as brokerage does not appear here and it seems that banks operated under the first notion. The odd exception did exist, such as the Caja de Ahorros de Barcelona, which had a special approach. It charged 4% annually in interest, due to the character of the institution, which aimed to reward saving by the people and generate a culture propitious to this end. But this special approach was also aimed at avoiding competition²⁶.

6 Owners' equity

* 6.1 Entries in the Profit and Loss Account

* A. Income: For the year 1846 (1st and 2nd six months), the source breaks down income into the following categories: income from factoring operations and loans (entry which accounts for practically all income), profit and bankers drafts or instalments to be negotiated, profit from currency exchange and entitlements from appraised deposits. In the first six

²³ Savings Bank of Barcelona.

²⁴ Special Operations Regulations for the Bank of Barcelona, Chapter 3, Article 38.

²⁵ Minutes of Management Board Meeting, 3 January 1853.

²⁶ Minutes of Board of Directors Meeting, 8 October 1845.

months of 1847 the entry of Forfeiture on account of pending securities appeared. Starting in 1847 the profit and loss account did not break down the source of income.

* B. Expenditure: In the Payment of interest and commissions account the following were included: interest paid to the Caja de Ahorros, expenses and commissions paid to secondary branches, brokerage operations, diverse commissions and guarantees paid, securities pending and bankers' drafts. The securities pending entry, which only appears in the second half of 1846, corresponds to "the levies imposed on this establishment which have not been satisfied and whose reduction was requested from the government"²⁷. The account Other operating costs covers the following items: office expenses, payments due to currency weakness, leases (of the warehouses which the bank prepared in order to store the items – mainly cotton – deposited as security in exchange for loans, which they began to close down after 1848), along with an entry for temporary expenses. The accounts of personnel expenses and the endowment for the amortization of capital assets were also included. Only one entry for taxes appeared in the first six months of business, namely, "levies" – accounting for 17% of the profit figures. From 1851 onward everything was amalgamated and the payment of taxes was not broken down.

* 6.2 Reserves: Reserves were contemplated in article 44 of the bank statutes as follows: "A quarter of profits will constitute a reserve fund, 1% of which will be invested in charity work to be decided on by the Shareholders' General Meeting". Article 46 continues: "Once the reserve fund reaches a quarter of the bank's capital, profits will be shared". Article 7 of the law of 4 May 1849 states: "The bank shall have a reserve fund equivalent to 10% of its effective capital", referring to the Bank of San Fernando, but obliging those of Barcelona and Cadiz to bring their statutes into line with the new law. This is why, when they reached 10% of their effective capital (June 1850), they ceased to increase the reserves until the capital was increased (June 1855).

* 6.3 Underwritten capital: The nominal capital with which the bank began operations amounted to one million *duros*, which was underwritten in its entirety. In the first six months of 1855 this capital was increased by half a million *duros* and by a further half a million again in the second six months. As such, in December, 1855, it had a nominal capital of 2 million *duros*. In the second six months of 1856 this capital was doubled, which meant that in December of that year it stood at 4 million *duros*. These successive increases in capital obeyed a change in circumstances. In 1854 a change of government came about (the so-called *bienio progresista*²⁸) which paved the way for a new chapter in legislation encompassing the passing of both the Railways and Banks and Credit Societies acts, thus generating new investment prospects for the country.

²⁷ Banco de Barcelona. Minutes of Management Board meeting, 28 December 1846.

²⁸ The name given to the period from 1854-1856 in Spain which stood out due to the return to power of Espartero, Count of Luchana, a general and politician who had gained much prestige in the victory of the battle of Luchana in the first Carlist war.

Analysis of the management of the Bank of Barcelona²⁹

Our aim is to carry out an accounting analysis of the Bank of Barcelona in relation to the harmonization of the institution's microeconomic objectives, i.e. solvency, liquidity and profitability. To this end, based on the information in the half-yearly financial statements of the Shareholders' General Meeting, the minutes of these meetings, along with the minutes of the Board of Governors and Board of Directors Meetings of the Bank of Barcelona, we have carried out a full analysis of the accounting state of affairs of the bank. The financial statements provide the quantitative information in a heterogeneous way; it has proved necessary to homogenize and systemize the data presentation. In the preceding paragraph a detailed explanation is given of the items included in the entries on the balance sheet and the profit and loss account. In Appendix 1 we present the data of the balance sheets and profit and loss accounts³⁰.

Solvency

Modern banking carries out the financial function of brokerage by means of the acquisition of savings and the posterior placement of them as a credit investment. At the same time, the owners' equity covers the investment in permanent assets and serves as an ultimate guarantee before creditors and as margin against eventualities.

The privilege of issuing allowed institutions to increase the opportunities for investment beyond the acquisition of liabilities (current accounts and deposits). To this end the use of the bank's own resources acts as an ultimate guarantee of solvency: *'If the banks issue bank notes, it is because they receive trade bills, promissory notes and other securities or guarantees in exchange, in accordance with the proceedings laid down in their statutes and regulations. This surety in itself pacifies the business community since the most plentiful responsibility for the owners' equity corresponding to each and every one of these establishments also remains.'*³¹

In general terms, solvency determines the viability of the company in the long term. Solvency is determined by the difference between real assets and liabilities payable, which defines the relationship between owners' equity and liabilities payable. This viewpoint focuses on the central role of banking as a user of resources and, as such, this percentage shows the subsidiary function that owners' equity exercises as a guarantee fund.

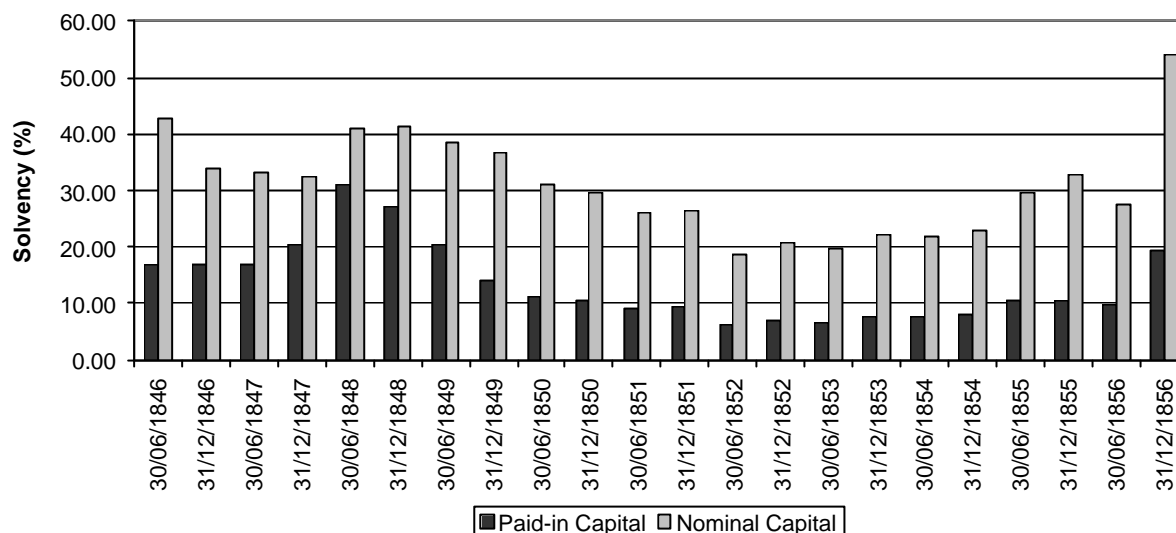
In the case of the Bank of Barcelona, owners' equity acted as a guarantee in the event of difficulties caused by bankruptcy protection. This last guarantee was made evident by maintaining 75% of the underwritten capital pending for disbursement; with this resource it was possible to avoid keeping idle money in the bank. Nonetheless, at the same time the bank had enough legal backup to execute non-disbursed capital if necessary. Due to this particularity, we have considered potential solvency (over nominal capital) and real solvency (over disbursed capital). See Graph 1.

²⁹ The methodology applied in this section is based on Kirchner (1974), Bachiller (1993) and Pedraja (1999).

³⁰ The balance sheets in the appendix are presented taking into account the entries for subscribed capital and shareholders with pending disbursements. However, given that the bank only demanded the disbursement of 25% of the underwritten capital, for the purposes of our analysis (except in the solvency study), we have eliminated the entry of uncalled share capital in assets and have placed disbursed capital under liabilities.

³¹ Banco de Barcelona. Half-yearly financial statement of 6 August 1848, p. 13.

Graph 1: Solvency Indicator (%)



$$\text{SOLVENCY (\%)} = \text{real assets (\%)} - \text{liabilities payable (\%)}$$

Graph 1 shows that solvency was reduced after the 1847-1848 crisis. On initiating its activity, solvency (over nominal capital) was situated between 30%-40%, whereas once the crisis was over, it was reduced to a minimum of 20% in 1852. This trend altered at the end of the period analysed. In the first six months of 1855, the first capital increase was carried out, followed by two further increases in December 1855 and December 1856, respectively. According to bank's Board of Directors, these capital increases responded to an explicit interest to improve solvency:

*"The simultaneous decrease in cash assets and increase in the portfolio, coinciding with the almost stationary permanence of obligations paid at sight, demonstrate the fundamental and even urgent need to place the bank in a position where it may avoid, under critical circumstances, in an attack of panic, the undesirable situation of possessing an overly inflated portfolio and the not unlikely danger, in respect of this, that if a part of the portfolio superior to the value of disbursed capital were to prove impossible to collect, the current guarantee in the hands of the shareholders might prove insufficient."*³²

Solvency over paid-in capital had the same behaviour after the 1847-48 crisis because there was not any extraordinary disbursement. But during the period 1846-1848, although solvency over nominal capital was reduced, solvency over paid-in capital increased as a result of the extraordinary disbursements which covered insolvency problems during the financial crisis.

³² See Appendix 2.

The panic erupted in Barcelona in the wake of reports from France: “When the unexpected news reached us in the capital of the revolution in France and the fall of the Orleans family and the proclamation of the republic, its first effect was to cause general stupor, the same effect as when a thunderclap is heard followed by a bolt of lightning shooting out from a small innocent-looking cloud. The second reaction was one of alarm, a terrible panic, as if some immense and inescapable evil were to descend upon us with such urgency that, given the appearances and the haste with which some rounded off their business and put their things in good order, you would have thought that a great catastrophe was upon us.

*“The Bank of Barcelona experienced the first effects of this panic and in a few days, in just a few hours it had to face highly inflated sums, payment of which would have left it in dire straits, if it had not had sufficient funds laid aside and not been so solidly organized.”*³³

The crisis was solved by extraordinary disbursements. In the second semester of 1846 an extraordinary disbursement was carry out. Paid-in capital was 37.7%, superior to the 25% stipulated in the statutes³⁴. This first “extra” disbursement is related to several credit operations which cloaked the acquisition of public debt securities³⁵. A second extraordinary disbursement of 12.5% was added in the second half of 1847, as a result of the problems caused by the “industrial and monetary” crisis of that year in the paying back of loans and factoring instalments owed to the bank³⁶. The last addition to these disbursements was a third

³³ *El Fomento*, 23 March 1848.

³⁴ Minutes of the meeting of the Board of Governors, 18 November 1846.

³⁵ At its inception, the Bank of Barcelona did not carry out operations explicitly with the Treasury. As Tortella points out (1973:44-5), it seems that the bank broke this rule starting in 1851 due to government pressure. Nevertheless, the loans made to the Treasury do not appear in the balance sheet for this period. Furthermore, between December 1845 and September 1846 the bank made several loans with guarantees of public-debt securities deposited in the Bank of San Fernando for a total amount of more than 350,000 *duros* (when the disbursed social capital amounted to 250,000 *duros*). Subsequently to carrying out these operations, the Treasury Minister, Alejandro Mon, reported the bank to parliament for performing speculative operations. To this end, the bank’s administrator, Jaime Badia, explained in the *Diario de Barcelona* newspaper of 3 February 1846 (pp. 547-550) that the bank, ‘has lent out its superfluous equity with the guarantee of public-debt securities at 3%.’ Nevertheless, these activities linked to the Treasury went above and beyond superfluous equity. Because of this, when the bank decided to perform a further operation of this kind in November 1846 (a further 250,000 *duros* on top of the 350,000 *duros* previously invested), it felt obliged to demand a disbursement of 12.5%. Despite the increased risk they posed for the institution, these cloaked operations with public-debt securities involved significant profits, as explained in the section on profitability.

³⁶ Extraordinary meeting of the Board of Governors, 6 May 1847. Minutes of the meeting of the Board of Governors of 28 June 1847. Half-yearly financial statement of 2 February 1848, p. 1. Financial statement read out at the Shareholders’ General Meeting of the Bank of Barcelona, 1 August 1847, p. 4: ‘One of the obligations which the Board of Governors also voluntarily imposed upon itself was that of preserving in its safe deposit [that of the bank] a third of its liabilities payable at sight. The principal banking institutions in England and France, pressured by the monetary crisis, had to relax this principle in order to satisfy the principal needs of industry and commerce. Yet the predicament of some was nevertheless so grave that in England especially, factoring operations were refused even to respectable firms despite the premium on these operations having been raised considerably in order to discourage them. Despite all this, the Bank of Barcelona ended the six months with a cash reserve which differed very little from its habitual state. Elsewhere, boards convened on a daily basis to determine the amounts that should be designated for factoring

in March 1848 (of a further 12.5%) as a response to the financial panic in order to offset the withdrawal of current accounts and the presentation of bank notes for redemption³⁷. Subsequent to the crisis, the institution started to pay back the extraordinary disbursements, until the figure of 25% was once again reached in December 1849, a position that was maintained until the end of the period in question.

Liquidity

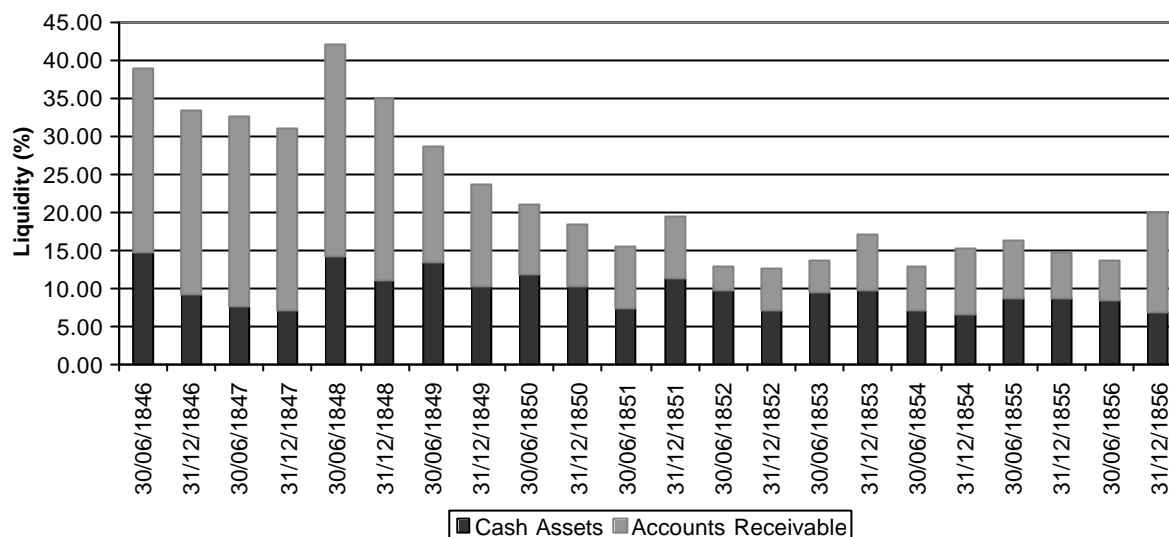
Liquidity determines the viability of the institution in the short term. It implies maintaining the level of current assets in harmony with the acquisition of short-term savings in such a way as to guarantee the immediate repayment of liabilities in case such demands are made by the public. In turn, the structure of current assets (cash assets + credit) is subject to a trade-off between greater liquidity (cash assets) and greater profitability (credit), since the level of cash reserves determines maximum liquidity in detriment to the expansion of credit, which has a negative effect on the increase of profits.

Liquidity is measured as the percentage difference between current assets and current liabilities (see Graph 2). Additionally, we have broken down current assets into two components: the proportion of current liabilities covered by cash assets and that which is employed in the concession of credit. With this, we wish to see what proportion of cash assets provides coverage for current liabilities.

since it was impossible for them to admit all the valid paper presented. The cash assets of the Bank of Barcelona naturally felt the effects of the common crisis. Nonetheless, since the board had other measures [disbursements] prepared, as can be seen, it was left unworried by the fact that a third of its liabilities were diminishing; but it has not refused for this motive any operation compliant with the conditions it has stipulated."

³⁷ On the measures adopted by the bank in dealing with the financial panic of 1848, see the minutes of the Board of Directors meeting of 28 February 1848, pp. 143-144. If the worst came to the worst, the personal solvency of the directors played an important role. This role was not symbolic since during the 1848 crisis it was they who provided coins to meet the demand for changing bank notes. See the minutes of the meeting of the Board of Governors of the Bank of Barcelona of March and April 1848.

Graph 2: Liquidity Indicator (%)



$$\text{LIQUIDITY (\%)} = \text{Current Assets} - \text{Current liabilities}$$

Graph 2 indicates that liquidity decreased substantially after the 1848 crisis. In the early years, current assets exceeded current liabilities by just over 30%. As indicated in the solvency analysis, this proportion is inflated due to the disbursements of capital of 1846, 1847 and 1848, which reduced the percentage of total liabilities represented by current liabilities. Once the “extraordinary” disbursements had been returned, the liquidity indicator placed current assets in excess of current liabilities by 10-20%.

The decline in current assets shows that the proportion of surplus cash assets covering current liabilities (notes and current accounts) for the whole period was situated between 5% and 15% (Graph 2). Nevertheless, the proportion of cash assets increased in respect of the current assets total after the 1847-48 crisis.³⁸ That is because business activity was reduced on the Catalan market after the financial crisis³⁸. This trend reversed from 1856 onward, when new investment opportunities were created in Barcelona. New credit investment prospects triggered by the laws of 1855 (railway construction) and 1856 (the creation of banks and credit societies) increased the Bank of Barcelona's portfolio.

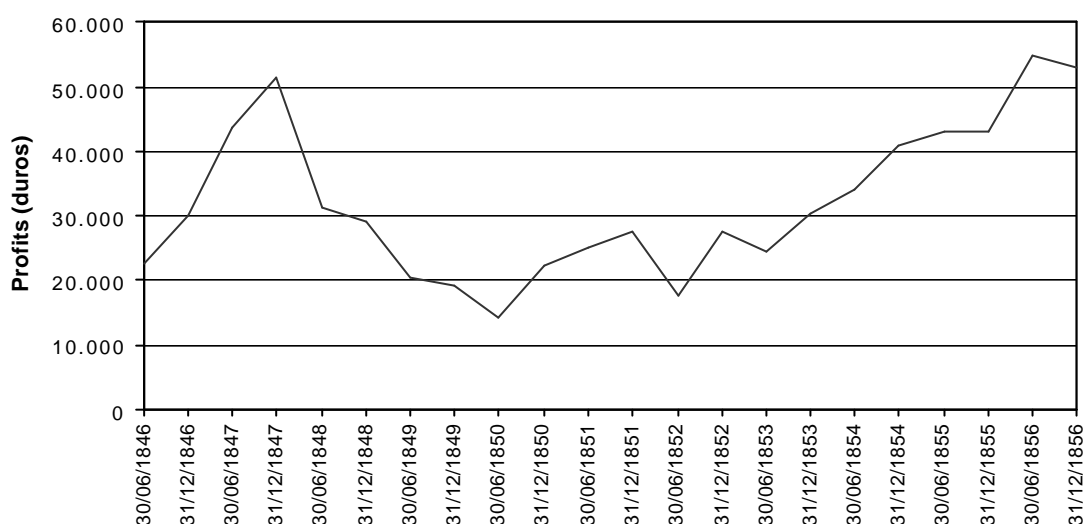
Profitability

Profitability is determined by the profits obtained from the credit granted, since the Bank of Barcelona did not reward the acquisition of liabilities (indeed, it even charged for it – see Appendix 1).

³⁸ See Blasco and Nogués (2007) for a complete explanation of the Bank of Barcelona credit policy.

Graph 3 shows the evolution of profits obtained by the bank³⁹. The substantial increase in profits that occurred between the first half of 1846 and December 1847 was linked to the reward obtained from operations with State debt⁴⁰. The sudden drop in profits starting in June 1848 was due to the set of circumstances arising from the 1847 crisis. The portfolio could not present a clean bill of health until 1854. Nevertheless, starting in 1850, a sustained increase in profits was obtained, sustained by the increase in credit volume, which compensated for the reductions applied to interest rates⁴¹. If we observe the increase that occurred between the minimum point reached in 1850 and the maximum obtained before the capital increase of 1855, it can be confirmed that profits doubled in this period.

Graph 3: Profits (*duros*)



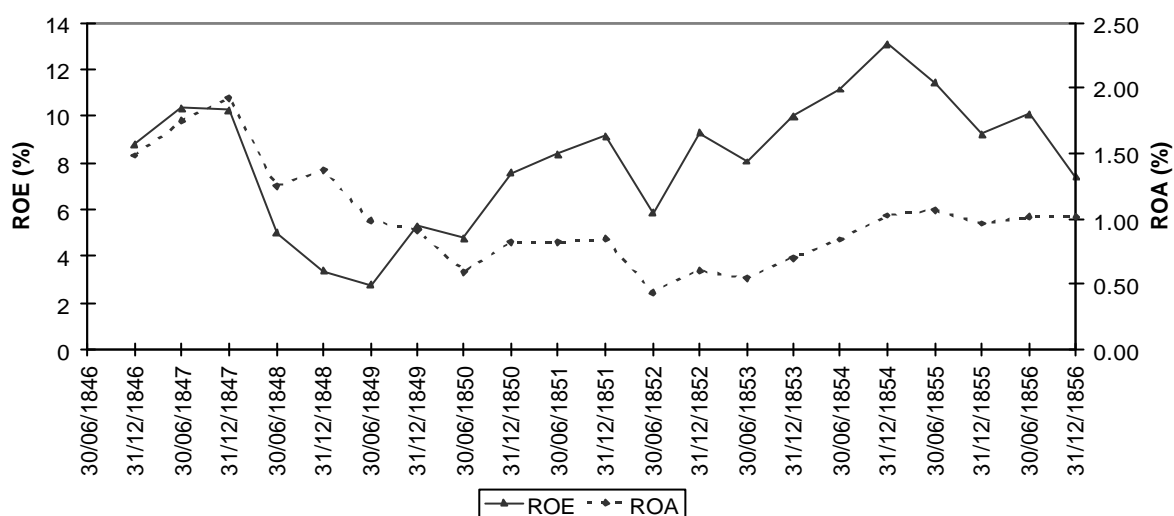
Once we have observed the evolution of profits in absolute terms, we can define profitability from two basic viewpoints: return on assets and return on equity (see Graph 4).

³⁹ Profits basically depended on the evolution of income, since expenses were very stable in this period, except in the second half of 1856 when expenses increased by 50%. This change in the level of spending was linked to the adaptation of the new bank headquarters acquired in 1855.

⁴⁰ We have evidence that the profits obtained from operations of public debt underwritten in Madrid were reflected in the profit and loss account, no doubt with the aim of demonstrating the potential of the business to shareholders. In the data of the financial statements, a total credit volume of 600,000 *duros* appears on top of the credit volume given in loans and factoring operations (710 documents with an average value of 3,785). This figure of 600,000 *duros* coincides with the amounts of public debt invested in Madrid. As such, the estimated interest rate for this accounting period surpasses the maximum rate stipulated in the statutes (6%). It has been calculated using the income figure. Because part of the income corresponds to public-debt operations of greater profitability, the average estimated interest rate is placed above the legal maximum.

⁴¹ Blasco and Nogués (2007).

Graph 4: Profitability



Return on Equity (ROE) (%) = Profits / Average Owners' Equity

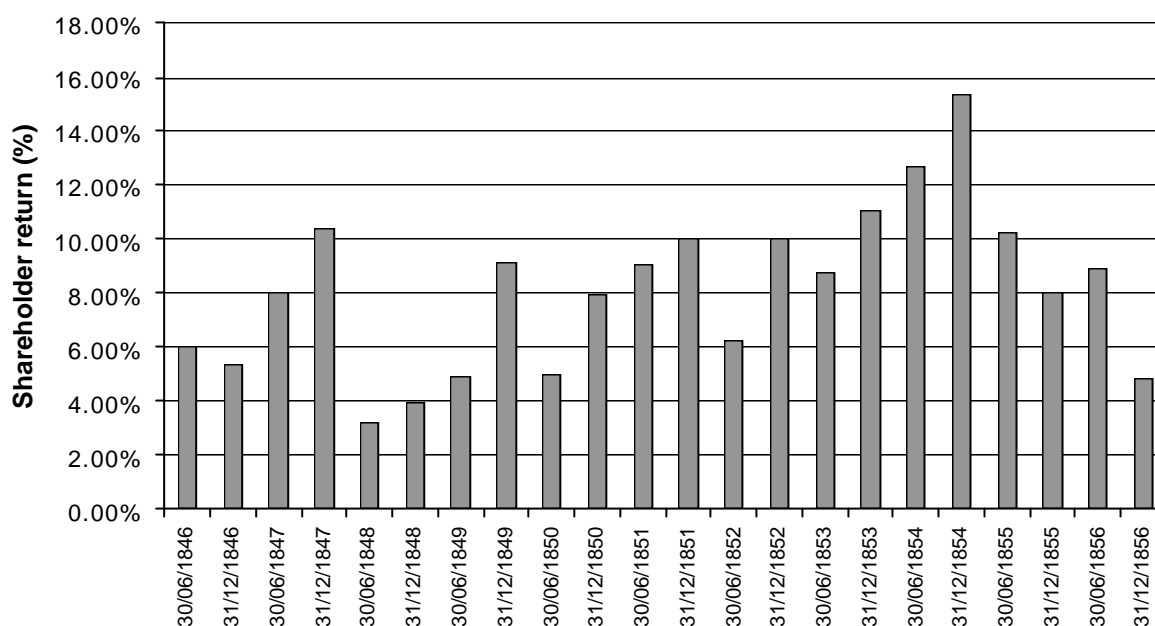
Return on Assets (ROA) (%) = Profits / Average Total Assets

Graph 4 shows that return on equity and return on assets had a different trend after the 1847-48 crisis, as ROE followed a growing trend until 1855, while the ROA trend was steady. That was the result of the increase in financial leverage. Return on equity rose while return on assets did not, because the Bank of Barcelona reduced the proportion of owners' equity. From June 1846 to December 1848 owners' equity average was 37.5%, while from June 1849 to June 1856 it was 27%, which represents an increase of 10% in financial leverage degree.

Therefore, the increase in financial leverage represents a higher risk, i.e. the reduction of solvency and liquidity, as well as higher shareholder profitability. Graph 5 shows shareholder return. Average shareholder return was 8.15% for the whole period, 6.6% from 1846 to 1848 and 8.85% from 1849 to 1856. That is a very high average return considering that the legal maximum interest rate in the period was 6%⁴².

⁴² Code of Commerce (1829), Book 2, Title 5, Articles 397-398.

Graph 5: Shareholder Return (%)



$$\text{Shareholder return (\%)} = \text{dividend}^{43} / \text{disbursed capital}$$

Conclusion

The Bank of Barcelona was the first regional issuing bank in Spain. The recent recovery of the Bank of Barcelona archive has given us the opportunity to understand the business of a pioneer modern bank.

Our goal was to analyse the business decisions of the bank by examining its accounts. To do so, we first standardized the balance sheets and profit and loss accounts. First we collected all the data and then applied the criteria of current management of bank balance sheets. Then we analysed the business decisions using accounting ratios in order to find out how private banking financed its activity. Solvency, liquidity and profitability ratios showed that the Bank of Barcelona maintained a high risk for preventing shareholder profitability. The increase of financial leverage by about 10% indicates that the Bank of Barcelona gave priority to profitability in detriment to solvency and liquidity. Average shareholder return of more than 8% corroborates this risk financing policy.

The Bank of Barcelona gained the issuing Royal Charter by providing a financial social service to the city of Barcelona in order to develop commercial, manufacturing and industrial activity. However, as a private enterprise, the main business objective was profitability. In the early days of the issuing banking system, which lacked strict

⁴³ The dividend was calculated as profit minus the reserve fund assigned to next financial years minus quantities paid to the Board of Governors and Board of Directors, available in the financial statement presented to the Shareholders' General Meeting of the Bank of Barcelona.

governmental control, shareholder profitability took priority over other business aims such as solvency and liquidity.

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APPENDIX 1 :⁴⁴

TABLE 2.1: BALANCE SHEET (data in DUROS)

	ASSETS	30/06/1846 ⁴⁵	%	31/12/1846	%	30/06/1847	%	31/12/1847	%	30/06/1848	%	31/12/1848	%
1	Current Assets	1.626.127,453	68,24	2.407.764,394	79,16	2.543.931,275	80,07	2.802.797,642	84,64	2.166.584,089	84,96	2.030.228,958	79,96
1.1	CASH ASSETS	610.532,404	25,62	652.506,997	21,45	581.775,322	18,31	636.661,877	19,23	728.007,909	28,55	637.588,351	25,11
1.2	ACCOUNTS RECEIVABLE	1.015.595,049	42,62	1.755.257,397	57,71	1.962.155,953	61,76	2.166.135,765	65,42	1.438.576,180	56,41	1.392.640,607	54,85
2	Capital Assets	6.820,884	0,29	7.631,005	0,25	8.273,139	0,26	8.450,176	0,26	8.430,976	0,33	8.671,678	0,34
2.1	FIXED ASSETS	2.881,327	0,12	3.192,710	0,10	3.439,619	0,11	3.815,819	0,12	3.820,319	0,15	4.050,621	0,16
2.2	INTANGIBLE ASSETS	3.939,557	0,17	4.438,295	0,15	4.833,520	0,15	4.634,357	0,14	4.610,657	0,18	4.621,057	0,18
3	Uncalled up share capital	750.000,000	31,47	626.375,000	20,59	625.050,000	19,67	500.000,000	15,10	375.000,000	14,71	500.000,000	19,69
	TOTAL ASSETS	2.382.948,337	100,00	3.041.770,399	100,00	3.177.254,414	100,00	3.311.247,818	100,00	2.550.015,065	100,00	2.538.900,636	100,00
	LIABILITIES	30/06/1846⁴⁶	%	31/12/1846	%	30/06/1847	%	31/12/1847	%	30/06/1848	%	31/12/1848	%
	Payable	1.360.386,737	57,09	2.006.411,531	65,96	2.121.414,222	66,77	2.238.188,722	67,59	1.502.844,978	58,93	1.485.799,232	58,52
4	Current liabilities	990.154,890	41,55	1.604.850,732	52,76	1.710.708,621	53,84	1.928.814,828	58,25	1.251.533,750	49,08	1.318.685,481	51,94
4.1	BANK NOTES ISSUED	541.000,000	22,70	1.000.000,000	32,88	1.160.000,000	36,51	1.492.500,000	45,07	1.097.500,000	43,04	1.097.500,000	43,23
4.2	CURRENT ACCOUNTS	297.524,707	12,49	573.009,743	18,84	527.716,713	16,61	406.719,224	12,28	151.761,532	5,95	206.082,316	8,12
4.3	PAYMENT COMMITMENTS	151.630,183	6,36	31.726,989	1,04	22.750,908	0,72	29.558,604	0,89	2.088,218	0,08	13.921,165	0,55
4.4	COMMIT. TO SHAREHOLDERS		0,00	114,000	0,00	241,000	0,01	37,000	0,00	184,000	0,01	1.182,000	0,05
5	Long-term liabilities	370.231,847	15,54	401.560,799	13,20	410.705,601	12,93	309.373,894	9,34	251.311,228	9,86	167.113,751	6,58
5.1	DEPOSITS	370.231,847	15,54	401.560,799	13,20	410.705,601	12,93	309.373,894	9,34	251.311,228	9,86	167.113,751	6,58
6	Owners' equity	1.022.561,600	42,91	1.035.358,868	34,04	1.055.840,192	33,23	1.073.059,096	32,41	1.047.170,087	41,07	1.053.101,404	41,48
6.1	PROFIT OR LOSS	22.561,600	0,95	30.104,192	0,99	43.560,050	1,37	51.567,045	1,56	31.191,477	1,22	28.977,165	1,14
6.2	STATUTORY RESERVES		0,00	5.254,676	0,17	12.280,142	0,39	21.492,051	0,65	15.978,610	0,63	24.124,239	0,95
6.3	UNDERWRITTEN CAPITAL	1.000.000,000	41,96	1.000.000,000	32,88	1.000.000,000	31,47	1.000.000,000	30,20	1.000.000,000	39,22	1.000.000,000	39,39
	TOTAL LIABILITIES	2.382.948,337	100,00	3.041.770,399	100,00	3.177.254,414	100,00	3.311.247,818	100,00	2.550.015,065	100,00	2.538.900,636	100,00

⁴⁴ Source: Half-yearly financial statements published by the Bank of Barcelona, 1846-1856.

⁴⁵ Refers to the first 10 months of activity, from 1 September 1845 to 30 June 1846

⁴⁶ Refers to the first 10 months of activity, from 1 September 1845 to 30 June 1846

	ASSETS	30/06/1849	%	31/12/1849	%	30/06/1850	%	31/12/1850	%	30/06/1851	%	31/12/1851	%
1	Current Assets	2.088.290,065	76,73	2.105.678,862	73,51	2.587.922,307	77,33	2.791.076,964	78,61	3.283.264,865	81,21	3.227.383,795	80,96
1.1	CASH ASSETS	968.516,839	35,58	915.358,430	31,95	1.464.661,634	43,77	1.538.345,992	43,33	1.569.871,456	38,83	1.896.590,471	47,57
1.2	ACCOUNTS RECEIVABLE	1.119.773,226	41,14	1.190.320,432	41,55	1.123.260,673	33,56	1.252.730,972	35,28	1.713.393,409	42,38	1.330.793,324	33,38
2	Capital Assets	8.433,487	0,31	8.875,487	0,31	8.625,487	0,26	9.504,642	0,27	9.501,285	0,24	9.251,285	0,23
2.1	FIXED ASSETS	3.940,884	0,14	3.815,884	0,13	3.690,884	0,11	3.923,240	0,11	3.957,258	0,10	3.832,258	0,10
2.2	INTANGIBLE ASSETS	4.492,603	0,17	5.059,603	0,18	4.934,603	0,15	5.581,402	0,16	5.544,027	0,14	5.419,027	0,14
3	Uncalled up share capital	625.000,000	22,96	750.000,000	26,18	750.000,000	22,41	750.000,000	21,12	750.000,000	18,55	750.000,000	18,81
	TOTAL ASSETS	2.721.723,552	100,00	2.864.554,349	100,00	3.346.547,794	100,00	3.550.581,606	100,00	4.042.766,150	100,00	3.986.635,080	100,00

	LIABILITIES	30/06/1849	%	31/12/1849	%	30/06/1850	%	31/12/1850	%	30/06/1851	%	31/12/1851	%
	Payable	1.670.654,572	61,38	1.814.689,046	63,35	2.307.492,211	68,95	2.503.404,712	70,51	2.992.693,335	74,03	2.934.055,701	73,60
4	Current liabilities	1.486.938,060	54,63	1.604.296,516	56,01	2.044.212,478	61,08	2.274.904,504	64,07	2.776.712,845	68,68	2.603.235,749	65,30
4.1	BANK NOTES ISSUED	886.430,000	32,57	661.280,000	23,08	490.490,000	14,66	471.140,000	13,27	452.130,000	11,18	422.230,000	10,59
4.2	CURRENT ACCOUNTS	570.304,155	20,95	876.201,083	30,59	1.348.660,768	40,30	1.595.191,816	44,93	1.968.777,272	48,70	1.879.169,259	47,14
4.3	PAYMENT COMMITMENTS	27.006,905	0,99	47.861,433	1,67	199.575,710	5,96	202.453,188	5,70	351.076,073	8,68	296.930,990	7,45
4.4	COMMIT. TO SHAREHOLDERS	3.197,000	0,12	18.954,000	0,66	5.486,000	0,16	6.119,500	0,17	4.729,500	0,12	4.905,500	0,12
5	Long-term liabilities	183.716,512	6,75	210.392,530	7,34	263.279,733	7,87	228.500,208	6,44	215.980,490	5,34	330.819,952	8,30
5.1	DEPOSITS	183.716,512	6,75	210.392,530	7,34	263.279,733	7,87	228.500,208	6,44	215.980,490	5,34	330.819,952	8,30
6	Owners' equity	1.051.068,980	38,62	1.049.865,303	36,65	1.039.055,583	31,05	1.047.176,894	29,49	1.050.072,815	25,97	1.052.579,379	26,40
6.1	PROFIT OR LOSS	20.391,643	0,75	19.187,966	0,67	14.055,583	0,42	22.176,894	0,62	25.072,815	0,62	27.579,379	0,69
6.2	STATUTORY RESERVES	30.677,337	1,13	30.677,337	1,07	25.000,000	0,75	25.000,000	0,70	25.000,000	0,62	25.000,000	0,63
6.3	UNDERWRITTEN CAPITAL	1.000.000,000	36,74	1.000.000,000	34,91	1.000.000,000	29,88	1.000.000,000	28,16	1.000.000,000	24,74	1.000.000,000	25,08
	TOTAL LIABILITIES	2.721.723,552	100,00	2.864.554,349	100,00	3.346.547,794	100,00	3.550.581,606	100,00	4.042.766,150	100,00	3.986.635,080	100,00

	ASSETS	30/06/1852	%	31/12/1852	%	30/06/1853	%	31/12/1853	%	30/06/1854	%	31/12/1854	%
1	Current Assets	4.787.310,517	86,32	4.330.550,420	85,09	4.561.122,137	85,74	4.031.291,783	84,17	4.065.195,024	84,28	3.885.183,443	83,68
1.1	CASH ASSETS	3.640.817,224	65,64	2.427.118,909	47,69	3.150.843,345	59,23	2.317.777,875	48,39	2.279.505,924	47,26	1.665.253,612	35,87
1.2	ACCOUNTS RECEIVABLE	1.146.493,293	20,67	1.903.431,511	37,40	1.410.278,792	26,51	1.713.513,908	35,78	1.785.689,100	37,02	2.219.929,831	47,82
2	Capital Assets	9.001,285	0,16	8.751,285	0,17	8.501,285	0,16	8.251,285	0,17	8.001,285	0,17	7.501,035	0,16
2.1	FIXED ASSETS	3.707,258	0,07	3.582,258	0,07	3.457,258	0,06	3.332,258	0,07	3.207,258	0,07	2.832,008	0,06
2.2	INTANGIBLE ASSETS	5.294,027	0,10	5.169,027	0,10	5.044,027	0,09	4.919,027	0,10	4.794,027	0,10	4.669,027	0,10
3	Uncalled up share capital	750.000,000	13,52	750.000,000	14,74	750.000,000	14,10	750.000,000	15,66	750.000,000	15,55	750.000,000	16,15
	TOTAL ASSETS	5.546.311,802	100,00	5.089.301,705	100,00	5.319.623,422	100,00	4.789.543,068	100,00	4.823.196,309	100,00	4.642.684,478	100,00

	LIABILITIES	30/06/1852	%	31/12/1852	%	30/06/1853	%	31/12/1853	%	30/06/1854	%	31/12/1854	%
	Payable	4.503.834,133	81,20	4.036.664,094	79,32	4.270.343,911	80,28	3.734.310,008	77,97	3.763.936,657	78,04	3.576.748,466	77,04
4	Current liabilities	4.176.565,886	75,30	3.787.495,381	74,42	3.941.784,173	74,10	3.343.669,246	69,81	3.547.260,846	73,55	3.295.066,705	70,97
4.1	BANK NOTES ISSUED	342.690,000	6,18	265.740,000	5,22	250.000,000	4,70	250.000,000	5,22	250.000,000	5,18	250.000,000	5,38
4.2	CURRENT ACCOUNTS	3.489.242,152	62,91	3.247.698,765	63,81	3.384.484,832	63,62	2.843.978,898	59,38	3.078.963,255	63,84	2.982.866,751	64,25
4.3	PAYMENT COMMITMENTS	340.196,234	6,13	269.674,866	5,30	303.888,091	5,71	247.467,848	5,17	216.644,341	4,49	58.307,204	1,26
4.4	COMMIT. TO SHAREHOLDERS	4.437,500	0,08	4.381,750	0,09	3.411,250	0,06	2.222,500	0,05	1.653,250	0,03	3.892,750	0,08
5	Long-term liabilities	327.268,247	5,90	249.168,713	4,90	328.559,738	6,18	390.640,762	8,16	216.675,811	4,49	281.681,761	6,07
5.1	DEPOSITS	327.268,247	5,90	249.168,713	4,90	328.559,738	6,18	390.640,762	8,16	216.675,811	4,49	281.681,761	6,07
6	Owners' equity	1.042.477,669	18,80	1.052.637,611	20,68	1.049.279,511	19,72	1.055.233,060	22,03	1.059.259,652	21,96	1.065.936,012	22,96
6.1	PROFIT OR LOSS	17.477,669	0,32	27.637,611	0,54	24.279,511	0,46	30.233,060	0,63	34.259,652	0,71	40.936,012	0,88
6.2	STATUTORY RESERVES	25.000,000	0,45	25.000,000	0,49	25.000,000	0,47	25.000,000	0,52	25.000,000	0,52	25.000,000	0,54
6.3	UNDERWRITTEN CAPITAL	1.000.000,000	18,03	1.000.000,000	19,65	1.000.000,000	18,80	1.000.000,000	20,88	1.000.000,000	20,73	1.000.000,000	21,54
	TOTAL LIABILITIES	5.546.311,802	100,00	5.089.301,705	100,00	5.319.623,422	100,00	4.789.543,068	100,00	4.823.196,309	100,00	4.642.684,478	100,00

	ASSETS	30/06/1855	%	31/12/1855	%	30/06/1856	%	31/12/1856	%
1	Current Assets	4.158.931,341	78,51	4.752.403,871	75,03	6.050.307,943	80,05	4.197.428,657	55,37
1.1	CASH ASSETS	2.222.702,327	41,96	2.784.185,164	43,95	3.701.572,015	48,97	1.433.916,997	18,92
1.2	ACCOUNTS RECEIVABLE	1.936.229,014	36,55	1.968.218,707	31,07	2.348.735,928	31,08	2.763.511,660	36,46
2	Capital Assets	7.251,035	0,14	7.001,035	0,11	7.927,141	0,10	132.654,224	1,75
2.1	FIXED ASSETS	2.707,008	0,05	2.582,008	0,04	3.633,114	0,05	128.485,197	1,70
2.2	INTANGIBLE ASSETS	4.544,027	0,09	4.419,027	0,07	4.294,027	0,06	4.169,027	0,05
3	Uncalled up share capital	1.131.090,000	21,35	1.575.000,000	24,86	1.500.000,000	19,85	3.250.000,000	42,88
	TOTAL ASSETS	5.297.272,376	100,00	6.334.404,906	100,00	7.558.235,084	100,00	7.580.082,881	100,00

	LIABILITIES	30/06/1855	%	31/12/1855	%	30/06/1856	%	31/12/1856	%
	Payable	3.729.217,492	70,40	4.263.481,159	67,31	5.469.166,893	72,36	3.488.160,441	46,02
4	Current liabilities	3.480.763,052	65,71	4.052.218,795	63,97	5.218.497,279	69,04	3.329.420,831	43,92
4.1	BANK NOTES ISSUED	250.000,000	4,72	527.850,000	8,33	1.000.000,000	13,23	1.400.000,000	18,47
4.2	CURRENT ACCOUNTS	3.228.336,937	60,94	3.521.516,244	55,59	3.801.979,941	50,30	1.863.494,996	24,58
4.3	PAYMENT COMMITMENTS	771,615	0,01	485,519	0,01	414.584,398	5,49	64.389,479	0,85
4.4	COMMIT. TO SHAREHOLDERS	1.654,500	0,03	2.367,032	0,04	1.932,940	0,03	1.536,356	0,02
5	Long-term liabilities	248.454,440	4,69	211.262,364	3,34	250.669,614	3,32	158.739,610	2,09
5.1	DEPOSITS	248.454,440	4,69	211.262,364	3,34	250.669,614	3,32	158.739,610	2,09
6	Owners' equity	1.568.054,884	29,60	2.070.923,747	32,69	2.089.068,191	27,64	4.091.922,440	53,98
6.1	PROFIT OR LOSS	43.054,884	0,81	43.064,044	0,68	54.881,387	0,73	52.935,807	0,70
6.2	STATUTORY RESERVES	25.000,000	0,47	27.859,703	0,44	34.186,804	0,45	38.986,633	0,51
6.3	UNDERWRITTEN CAPITAL	1.500.000,000	28,32	2.000.000,000	31,57	2.000.000,000	26,46	4.000.000,000	52,77
	TOTAL LIABILITIES	5.297.272,376	100,00	6.334.404,906	100,00	7.558.235,084	100,00	7.580.082,881	100,00

TABLE 2.2: PROFIT AND LOSS ACCOUNT (data in DUROS)

6.1	PROFIT AND LOSS	30/06/1846 ⁴⁷	%	31/12/1846	%	30/06/1847	%	31/12/1847	%	30/06/1848	%	31/12/1848	%
A	Income	33.068,740		41.019,324		51.396,646		60.988,648		41.400,287		37.926,623	
B	Expenditure	10.507,140	100,00	10.915,132	100,00	7.836,596	100,00	9.421,603	100,00	10.208,810	100,00	8.949,458	100,00
1	PAYMENT OF INTEREST & COMMISSIONS	582,679	5,55	3.424,004	31,37	1.037,878	13,24	406,888	4,32	677,619	6,64	189,083	2,11
2	PERSONNEL COSTS	8.113,670	77,22	6.154,493	56,38	5.385,993	68,73	7.228,496	76,72	6.348,102	62,18	5.992,007	66,95
3	ENDOWMENT AMORTIZATION ASSETS	250,000	2,38	250,000	2,29	250,000	3,19	250,000	2,65	250,000	2,45	250,000	2,79
4	OTHER OPERATING COSTS	1.560,791	14,85	1.086,635	9,96	1.162,725	14,84	1.536,219	16,31	2.933,089	28,73	2.518,368	28,14
A-B	PROFITS	22.561,600		30.104,192		43.560,050		51.567,045		31.191,477		28.977,165	

6.1	PROFIT AND LOSS	30/06/1849	%	31/12/1849	%	30/06/1850	%	31/12/1850	%	30/06/1851	%	31/12/1851	%
A	Income	29.043,385		26.378,911		22.401,510		29.435,695		32.090,119		35.230,221	
B	Expenditure	8.651,742	100,00	7.190,945	100,00	8.345,927	100,00	7.258,801	100,00	7.017,304	100,00	7.650,842	100,00
1	PAYMENT OF INTEREST & COMMISSIONS	120,286	1,39	148,572	2,07	111,758	1,34	250,702	3,45	253,956	3,62	275,167	3,60
2	PERSONNEL COSTS	5.429,567	62,76	5.377,251	74,78	5.125,066	61,41	5.677,321	78,21	5.669,330	80,79	5.686,598	74,33
3	ENDOWMENT AMORTIZATION ASSETS	250,000	2,89	250,000	3,48	250,000	3,00	250,000	3,44	250,000	3,56	250,000	3,27
4	OTHER OPERATING COSTS	2.851,889	32,96	1.415,122	19,68	2.859,103	34,26	1.080,778	14,89	844,018	12,03	1.439,077	18,81
A-B	PROFITS	20.391,643		19.187,966		14.055,583		22.176,894		25.072,815		27.579,379	

6.1	PROFIT AND LOSS	30/06/1852	%	31/12/1852	%	30/06/1853	%	31/12/1853	%	30/06/1854	%	31/12/1854	%
A	Income	25.586,130		35.914,034		32.381,427		38.797,211		42.561,399		50.151,328	
B	Expenditure	8.108,461	100,00	8.276,423	100,00	8.101,916	100,00	8.564,151	100,00	8.301,747	100,00	9.215,316	100,00
1	PAYMENT OF INTEREST & COMMISSIONS	271,366	3,35	495,111	5,98	229,225	2,83	246,603	2,88	241,406	2,91	308,381	3,35
2	PERSONNEL COSTS	5.824,720	71,84	6.290,558	76,01	6.246,409	77,10	6.060,769	70,77	5.833,916	70,27	6.820,651	74,01
3	ENDOWMENT AMORTIZATION ASSETS	250,000	3,08	250,000	3,02	250,000	3,09	250,000	2,92	250,000	3,01	250,000	2,71
4	OTHER OPERATING COSTS	1.762,375	21,74	1.240,754	14,99	1.376,282	16,99	2.006,779	23,43	1.976,425	23,81	1.836,284	19,93
A-B	PROFITS	17.477,669		27.637,611		24.279,511		30.233,060		34.259,652		40.936,012	

⁴⁷ Refers to the first 10 months of activity, from 1 September 1845 to 30 June 1846.

6.1	PROFIT AND LOSS	30/06/1855	%	31/12/1855	%	30/06/1856	%	31/12/1856	%
A	Income	52.171,160		53.176,362		65.947,512		69.647,978	
B	Expenditure	9.116,276	<i>100,00</i>	10.112,318	<i>100,00</i>	11.066,125	<i>100,00</i>	16.712,171	<i>100,00</i>
1	PAYMENT OF INTEREST & COMMISSIONS	175,158	<i>1,92</i>	251,480	<i>2,49</i>	849,332	<i>7,68</i>	1.583,391	<i>9,47</i>
2	PERSONNEL COSTS	6.715,604	<i>73,67</i>	7.420,639	<i>73,38</i>	7.780,519	<i>70,31</i>	8.386,069	<i>50,18</i>
3	ENDOWMENT AMORTIZATION ASSETS	250,000	<i>2,74</i>	250,000	<i>2,47</i>	250,000	<i>2,26</i>	250,000	<i>1,50</i>
4	OTHER OPERATING COSTS	1.975,514	<i>21,67</i>	2.190,199	<i>21,66</i>	2.186,274	<i>19,76</i>	6.492,711	<i>38,85</i>
A-B	PROFITS	43.054,884		43.064,044		54.881,387		52.935,807	

APPENDIX 2: Report from the Board of Directors of the Bank of Barcelona on the capital increase of 4 December 1854.

The simultaneous decrease in cash assets and increase in the portfolio, coinciding with the almost stationary permanence of obligations paid at sight, demonstrate the fundamental and even urgent need to place the bank in a position where it may avoid, under critical circumstances, in an attack of panic, the undesirable situation of possessing an overly inflated portfolio and the not unlikely danger, in respect of this, that if a part of the portfolio superior to the value of disbursed capital were to prove impossible to collect, the current guarantee in the hands of the shareholders might prove insufficient.

The Board of Directors feel that there are three measures to be implemented in order to achieve the above objective.

- 1. System of contraction, based on reducing credit, raising factoring rates, limiting consignments and increasing loan guarantees.*
- 2. Exaction of passive dividends.*
- 3. Increase of capital.*

Let us examine them.

The first measure provides positive, although slow, results. However, in its origin and trends, its application would upset and disturb commercial transactions on the market, would give rise to complaints and demands which would lay open either the imprecision and hesitant approach of the bank, or the insufficiency of its current resources to meet the objectives of its foundation.

While the burden involved in the second measure, somewhat opposed in spirit to Article 14 of the statutes, does suppose an increase in resources, providing the greatest shareholder disbursement, it does not carry with it, however, a real and positive increase in guarantee since the capital of one million duros would not be modified in its totality. Being recommendable in this case the prudent action of reducing the portfolio, the securities of which amount to approximately double that sum, herein lies the inefficiency and inopportune nature of this second measure.

The management believes it risks nothing in stating that the third measure is the only one which meets all the desired criteria without suffering from any of the drawbacks expressed above. Indeed, on top of the greater guarantee which the issuance of new shares would represent, an increase in disbursed capital would be achieved, without going beyond the limits of prudence, by demanding twenty-five percent of their nominal capital in order to level them with the original shares. Far from reducing the portfolio, its amount could be raised to two million duros with no risk or harm done to the shareholders. Finally, the bank will remain solidly constituted, without great loss of half-yearly profits, which will necessarily be reduced to a reasonable proportion if fuel is not to be fed to rivals and competitors.

One objection could perhaps be lodged against the appropriateness of increasing the capital of the bank, which is the impossibility of later reducing it to its original state in the event of a widespread commercial standstill and the subsequent decrease in the portfolio. The management does not hesitate to qualify such an argument as weak, since if the data here exposed did not shed sufficient light on the matter, related as it is to a short period of time, it would be enough to study the upward trend of the portfolio since the opening of the bank.

The surprise, and even distrust, with which the novelty of any institution is greeted, however useful that institution may be, ignorance of the theories of credit and their huge advantages, routine and limited business sense, all contributed to deprive the institution initially of the basic sustenance which a bank in the capital of the kingdom needs. This initial hesitancy overcome and following the gradual acclimatisation, so to speak, of the institution, the business community gradually overcame its distrust and began to accustom itself to the granting and circulating of fixed-term promissory notes. Businessmen now approach the bank without embarrassment in search of help, on the security of which they count in order to satisfy the spirit of speculation which has been engendered under the tutelage of the establishment. Every day new companies of service to the public are created, which by giving greater impetus to transactions increase public and private wealth and flow back to the bank itself increasing its portfolio.

The management does not believe impossible, however, the presence of extraordinary causes, although transitory, such as a marked paralysis of business or an exaggerated influence of the working medium in the market, which hinder the development of the operations of the bank. However, it is convinced that even in the face of such circumstances, it would be within its power to halt the drop in portfolio, employing a series of measures and in the last instance reducing interest rates to 3%, in the extreme case of which, and supposing a portfolio of two million duros, the shareholders may still find themselves with substantial funds.